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SUBJECT: NETHERLANDS: NEXT STEPS ON ICESAVE

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Classified By: Acting Political-Economic Counselor Eric Falls for reasons 1.4 (b) and (d).

[1](#)1. (C) Summary: The Government of the Netherlands (GONL) believes the existing Dutch and British loan agreements with Iceland will be resoundingly defeated in a March 6 Icelandic referendum. The GONL therefore plans to offer the Government of Iceland (GOI) new interest terms on its loan during the week of February 22 in hopes of avoiding the referendum altogether. The Dutch offer likely will entail an interest holiday<sup>8</sup> for part of the term of the loan, or changing the current fixed interest rate to a floating one. Regarding the confidential State Department cable on the Icesave issue that was leaked to the Icelandic press on February 18, the GONL expressed no surprise, noting the continuous information leaks coming from Iceland throughout the Icesave debacle. End summary.

[1](#)2. (SBU) Nicole Bollen, Coordinator for Debt Issues at the Dutch Ministry of Finance, briefed ECONOFF February 19 on next steps in the Icesave case. The GONL, led by Finance Minister Wouter Bos, has met with Icelandic delegations several times in recent weeks to find a solution to the current impasse. The GONL remains firm that it will accept nothing less than full repayment of the 1.3 billion euro (USD 1.8 billion) loan it issued to the GOI in October 2008 to help the GOI repay Dutch deposit holders after the bankruptcy of Internet bank Icesave, part of the Icelandic bank Landsbanki (ref A). The British government similarly loaned Iceland 2.5 billion pounds (USD 3.5 billion) to help repay its deposit holders. Iceland's parliament passed a bill in December setting out repayment terms for both loans, but President Grimsson refused to sign it on the grounds that the terms were overly harsh. His refusal triggered a national referendum on the deal scheduled for March 6.

[1](#)3. (SBU) Iceland's Finance Minister Sigfusson, accompanied by leaders of the Independence and Progressive opposition parties, met January 29 with Dutch Finance Minister Bos and UK Financial Services Minister Myners in The Hague. At that meeting, the parties agreed upon <sup>8</sup>The Hague Principles that must be met in any revised plan to repay the Dutch (and British) loans. These principles are (1) full repayment of principal, (2) a concise proposal, (3) a quick end to negotiations (i.e. before the March 6 referendum), and (4) united <sup>8</sup>cross-party political support in Iceland. (Note: The presence of Icelandic opposition parliamentarians in the meeting was intended to demonstrate that <sup>8</sup>cross-party support that the Dutch and British require for any successful renegotiation of the loan terms. End note.)

¶4. (C) Icelandic finance officials and opposition parliamentarians subsequently presented new options to their UK and Dutch counterparts in meetings in London on February 15 and 16. According to Bollen (who did not attend the meetings), the first proposal offered by the GOI on February 15 was &outrageous.8 It did not guarantee full repayment of principal and offered no interest payments at all. The second proposal on February 16 was only &slightly better,8 with the GOI offering to repay principal ) over a long period of time ) but no interest payments. The GONL Qperiod of time ) but no interest payments. The GONL rejected both offers on the grounds that (1) they did not meet the agreed-upon &Hague Principles,8 and (2) the refusal to pay interest set a dangerous and unacceptable precedent for sovereign debt and other key Paris Club issues.

¶5. (C) According to Bollen, the GONL believes the existing loan agreements with the Netherlands and UK will be resoundingly defeated in the March 6 Icelandic referendum. This will require the governments of Iceland, the Netherlands, and the UK to effectively to start over with negotiating new repayment terms. To avoid this scenario, the GONL is seeking a solution now that would obviate the need for the referendum. We &must get clear of this,8 said Bollen; &the entire issue has gotten way out of hand and has become silly and destructive.8

¶6. (C) Bollen said the GONL therefore plans to &make an offer8 to the GOI during the week of February 22. The GONL is willing to negotiate on interest payments, but not the core &Hague Principles.8 Bollen indicated that options could include changing the current fixed interest rate of 5.55 percent to a floating rate for part of the repayment period. Another option could be an &interest holiday8 for part of Iceland,s seven-year grace period on the debt.

¶7. (C) Regarding the confidential State Department cable on the Icesave issue that was leaked to the Icelandic press on February 18 (ref B), Bollen said she was not surprised at all. She described Iceland as a &sieve8 in which information leaks are standard practice. &Every time we have a confidential discussion with Icelandic officials, we read about it the next day in the press.8

¶8. (SBU) Bollen will represent the Netherlands in the Paris Club meetings on February 22-25 in Paris. She noted that she has discussed Icesave developments regularly with U.S. Treasury and State Department reps at recent Paris Club meetings; she will seek them out again during next week,s meeting and update them on developments.

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